

NSTAR ELECTRIC

Energy Efficiency Program Performance Incentive Reconciliation

2001

The Electric Utility Restructuring Act of 1997 (the “Restructuring Act”) set forth requirements for the delivery of energy efficiency programs in the Commonwealth of Massachusetts. Under the Restructuring Act, NSTAR Electric’s¹ energy efficiency efforts are subject to the regulation of the Department of Telecommunications and Energy (“Department”), as well as the Division of Energy Resources (“DOER”).

During 2001 NSTAR Electric operated comprehensive energy efficiency programs targeting the residential, low-income and commercial and industrial (“C&I”) customer sectors which, for Cambridge and Commonwealth, were operated pursuant to the settlement agreement approved by the Department on July 31, 1998 in docket D.T.E. 98-16 and which, for Boston Edison, were operated pursuant to the Settlement Agreement approved by the Department on October 16, 1998 in docket D.P.U./D.T.E. 97-86. Such Settlement Agreements were updated for the program year 2001 on August 13, 2001, when the Companies, in conjunction with the Settling Parties, filed their 2001 Update to the Three-Year Energy Efficiency Plan (the “2001 Update”) with the Department and DOER. The 2001 Update was approved by the Department on December 21, 2001.

As a component of the 2001 Update, the Companies agreed to performance goals, or “performance metrics” for the following energy efficiency programs:

1. Residential Programs
 - A. ENERGY STAR® Homes Program
 - B. ENERGY STAR® Lighting Program
 - C. ENERGY STAR® Appliances Program
 - D. Residential High Use Program

¹ Boston Edison Company (“Boston Edison”), Cambridge Electric Light Company (“Cambridge”) and Commonwealth Electric Company (“Commonwealth”) are collectively referred to as “NSTAR Electric” or the “Companies.”

2. Residential Low-Income Programs
3. C&I Programs
 - A. C&I New Construction Program
 - B. C&I Retrofit Program
 - C. Small C&I Retrofit Program
4. C&I Market Transformation Initiatives
 - A. Design Lights Consortium
 - B. O&M Training
 - C. Compressed Air Challenge
 - D. Unitary HVAC (Cool Choice Initiative)
 - E. Motor Up Initiative
 - F. State Commercial Building Code Support
 - G. Eco-Efficiency

In accordance with Section 5 of the Guidelines for the Methods and Procedures in the Evaluation and Approval of Energy Efficiency Programs adopted by the Department in its February 7, 2000 Order in D.T.E. 98-100, Generic Investigation to Establish Methods and Procedures to Evaluate and Approve Energy Efficiency Programs, the Companies are entitled to earn a shareholder incentive calculated as a percentage of the budget, depending upon measured performance with respect to pre-defined program goals or “performance metrics” for each of the above-listed programs. The Settling Parties agreed to performance metrics as specified in the 2001 Update and attached here as Exhibit 1 for ease of reference. The performance metrics were developed in accordance with Section 5 of the guidelines issued by the Department in D.T.E. 98-100 with regard to structure for shareholder incentive mechanisms and how to calculate shareholder incentives associated with performance under their energy efficiency plans. The guidelines include definitions of a “design” performance level, a “threshold” performance level, and an “exemplary” performance level. The design performance level is defined as achieving 100% of the goal included a distribution company’s Energy Efficiency Plan. The threshold performance level is defined as achieving 75% of the goal. And, the exemplary performance level is defined as achieving 125% of the goal.

Section 5 also provides direction to the distribution companies about how to calculate shareholder incentives. The after-tax shareholder incentive related to accomplishing the design performance level is to be calculated as the product of: “(1) the average yield of the three-month United States Treasury bill..., and (2) total program implementation costs as included in a distribution company’s Energy Efficiency Plan.” (D.T.E. 98-100: Final Guidelines, § 5.3). Performance at the threshold level results in a shareholder incentive that is equal to 75% of the design incentive level. A distribution company shall earn no incentive if its performance is below the threshold performance level. Performance at the exemplary level results in a shareholder incentive that is equal to 125% of the design incentive level, and a distribution company shall earn no more than its exemplary performance level.

The Companies, as specified in the 2001 Update, are now submitting herewith their incentive reconciliation report for 2001 energy efficiency efforts, including levels of achievement of applicable metrics, attached herewith as Exhibit 1. Exhibit 2 of this filing lists the supporting documentation, available upon request, for each metric and incentive level achieved. Exhibit 2 also sets forth the earned shareholder incentive, adjusted for changes in the United States Treasury bill rate.²

In sum, for the NSTAR Electric companies combined, the total incentive earned was \$3,427,588. Individually, by Company, the earned incentive was \$2,600,051 for Boston Edison Company. For Cambridge Electric Light Company the incentive earned was \$255,903. For Commonwealth Electric Company the incentive earned was \$571,634.

² Earned shareholder incentives are calculated as the product of the average three-month United States Treasury bill issued during the most recent twelve-month period and total program implementation costs.